Research @ Citi Podcast Episode 64: Banking on the Future

Recorded: Jan. 29, 2026

Published: February 5, 2026

Host: Anne Malone, North America Head of Research, Citi

Guest: Keith Horowitz, Global Head of Banking Research, Citi

Anne Malone (00:01)

Hi everyone. Welcome to the Research @ Citi podcast. I'm Anne Malone, the North America Head of Equity Research at Citi.

With me on my podcast, very happy to say, is Keith Horowitz, our Global Head of Banking, Equity Research here at Citi. Today, we have Keith and we're going to be talking about all the emerging trends in banking and his insights on what you can expect going forward. Keith, always good to talk to you.

Keith Horowitz (00:22)

Thanks, Anne. Good to see you.

Anne Malone (00:24)

If I consider the Silicon Valley bank situation as a pivot point in banking, what are the most common trends or topics that clients want to talk to you about these days?

Keith Horowitz (00:37)

That was a big moment for the industry. A big part of banking is a great business, but it's built on trust. And what happened was that as people get a little concerned about their deposits, that can really unwind the business model for a bank. And because there is a maturity mismatch in terms of taking in deposits and making longer-duration loans. So that was a troubled time for the banks.

Anne Malone (00:57)

And remind me what year that was?

Keith Horowitz (01:00)

That was 2023.

Anne Malone: (01:02)

OK.

Keith Horowitz: (01:03)

I think what came out of the Silicon Valley crisis was it basically re-emphasized the importance of big banks in terms of stability. And so, when you think about the larger banks like a JP Morgan or Bank of America, they have a huge advantage in terms of consumer deposits. Those are relatively cheap deposits, and basically people feel very comfortable holding their deposits there.

That is a big advantage. And after Silicon Valley you started to see more market share move towards the larger banks. We think that's stabilized a bit, and just going forward now, in terms of after Silicon Valley, rethinking the rules a little bit, we expect to see a little bit of calibration from the regulators.

Anne Malone (01:42)

Dig a little deeper into calibration. What might change?

Keith Horowitz (01:47)

It's interesting. So every crisis is different, and when you try to solve for the last crisis, you miss what's coming ahead. And so what happened during this crisis was more of a liquidity issue.

And it was almost like a perfect storm because you had a period of very low rates, and then you had QE on top of it during COVID. And so the banks were flush with deposits, and certain banks decided to go out on the curve to generate near-term earnings.

And that's one of the issues with a bank. Banking is a great model. The issue when you're looking at banks, though, is you have to recognize that banks can manufacture earnings by taking either credit risk or interest-rate risk, and ultimately it can come back to bite you.

So some of the banks that decided to lock in long duration when rates were close to zero, as the Fed started to raise rates, that led to large problems. Now, if the deposits were relatively stable, it's something that the banks could have gotten through. But when people are scared and they start to take their deposits out, that's when the model really kind of falls apart.

But where we are today is I think that we're going to be addressing the capital requirements and the liquidity requirements for the banks, which I think is all healthy.

Anne Malone (02:54)

OK, so if there is an advantage to being bigger, then let's talk a little about how regional banks compete.

Keith Horowitz (03:04)

So I think that typically people will look at the larger banks and they'll look at the technology budgets. And it's not necessarily fair because the larger banks are a lot more complex. They're in a lot more different businesses. I do think for the regional banks that I cover — $100 billion and higher — they can compete in certain verticals and in certain businesses. And so they don't need to be everything to everyone, but in terms of what they're in, I think they can be a very effective competitor.

Anne Malone (03:31)

So if we turn to technology, in a world of everyone spending on AI, dollars matter. So how do they handle the technology spend — all of them, regional or the larger ones?

Keith Horowitz (03:45):

So AI is important, but most important is the data. And so what we've seen in the past is that a lot of banks have their core systems that were built years ago based on COBOL, and then they tacked on a lot of different applications and they kind of created a spaghetti.

And so what we've been seeing from the banks over the past 10 years is a way to clean up their data infrastructure, clean up their applications, in terms of what they call hollow out the core. And so I think a lot of the banks are in fairly good shape to use AI for specific use cases and so deploy it more strategically.

And so I think you're seeing all banks looking to benefit from AI, maybe some more than others. But the most important thing for a bank, it’s not necessarily the size. I think it's the quality of your data.

Anne Malone (04:29)

And is that a big discussion point, either who's gotten it right so far or who's investing the most? And I don't know if the right word in a bank is profitability, but is it just being more efficient, or can it really change the look and the profitability of a bank? Is it big enough?

Keith Horowitz (04:46)

I think it can be big enough, but I think if everyone is doing it, all of a sudden it's a competitive market, and so it will get taken away in terms of pricing. So there might be some near-term advantage for banks who are a little bit ahead in terms of AI. But in general, I think that there's not much that the smaller banks can't do in their specific verticals that the large banks can do.

Anne Malone (05:08)

Switching gears a bit, we want to keep talking about hot topics, hot trends here. We hear a lot about private credit. How does that play into the bank's business and where they're going to go forward?

Keith Horowitz (05:21)

So coming out of the financial crisis, a lot of banks extended a little bit too much credit. And a lot of the problems in credit were mostly on the residential-mortgage side and on the commercial real-estate side. But due to regulations also, they had to pull back in terms of leverage lending.

And pre-financial crisis, if you think about it, banks were constrained by what I would call their economic capital. And so some banks felt like they needed to hold a little bit more capital relative to what the regulators require. So the regulator capital was more of the floor and certain high-quality banks operated above that and came out of the crisis really well. Other banks who kind of operate at the regulatory-capital floor basically had a lot of trouble, and some ended up being sold or went under.

The issue going forward now, in my view, is that the regulatory capital has been recalibrated. It's so high that it has now become the constraint, and it's higher than the actual economic capital that a lot of the banks feel they need to operate. So that's created this regulatory arbitrage, in our view, in terms of non-bank competitors coming in and being able to price these loans and getting good risk-adjusted returns. The banks really can't compete, because they have to deal with regulatory-capital ratios.

Anne Malone (06:31)

I assume they also have an advantage of lower regulation in general?

Keith Horowitz (06:39)

Yeah, look, when the banks have every opportunity to complain about what private credit is doing, we're not hearing that they're doing anything kind of crazy. So, there's no big there there. But you have definitely seen that the banks have lost about three points of share — which is huge — since the financial crisis.

And so I would think the one positive is that where they've lost share, I would say, is probably on the riskier end. Whenever we go into recession, those are the credits that are going to get tagged. And so I would say that the credit quality for the banks I don't think has ever looked better.

Now people are always going to shoot first and ask questions later. And you saw that in third quarter with some of the credits that went bad, but a lot of those were due to fraud. Basically, fraud is something that the banks are always going to deal with, and it's really symptomatic of a slowing economy. That's what you kind of saw in third quarter, but it wasn't like this harbinger of a lot of things to come.

And so I think the banks are well reserved and I feel really confident in the credit quality.

Anne Malone (07:35)

That three points of share, I don't think I'd heard that number from you when we talked before. Is that a big number? Is that what you would have expected? Where do you think that heads?

Keith Horowitz (07:48)

It's a really big number. So one of the things that we did that’s a little bit different is when we look at credit, we look at the flow of funds data from the Fed. And roughly, the banks are about 35% of overall credit going back to the financial crisis, and they lost about three points of share. It's going to the bond markets, going to private credit, going to insurance companies, etc.

And so when we look to assess the credit risk for banks, the first thing we look at is the overall pools of credit. Are they growing much faster than the overall GDP? If you go back to the financial crisis, certain pools of credit like residential mortgage and commercial real estate grew at multiples of GDP. And overall, credit was growing at 50% or more faster than GDP.

What we've seen since the Great Financial Crisis is that credit has grown more in line with GDP. And there's really been no specific pools that really had significant growth. In addition, banks have lost about three points of share.

So our view is the number one driver of excess credit losses is excess credit growth, which just makes sense. You haven't had that overall when you look at the entire U.S. And then when you look specifically at the banks, they've lost three points of share. And that's what gives us so much confidence on the credit quality for the banks.

It's always tough for an investor because the problem with the bank model is they're opaque black boxes and they're levered. So whenever you see signs of credit stress, the market's going to shoot first and ask questions later, like we saw in third quarter. Those are buying opportunities; back in the financial crisis, that was not a buying opportunity because there were credit issues.

Anne Malone (09:14)

Two topics extend from here, though. If there's points’ share of loss, does that lead to anyone talking more about M&A? Is that a trend now to be discussing among banks?

Keith Horowitz (09:25)

So, a couple of things. One of the beauties of commercial lending, which is where a lot of it's going, is banks will typically, on a commercial loan, lend at slightly above their cost of capital. Banks are paid on higher returns, like mid- to high teens type of returns.

And so what's happening right now with private credit is a lot of banks getting taken out of these credits, but they're able to maintain the deposit relationship and the fee relationship. So right now it's not a terrible place to be in.

Anne Malone (09:54)

OK, so you don't lose it all.

Keith Horowitz (09:56)

You don't lose it all. So that's more of the theoretical argument. In terms of the stock-specific argument, the market definitely likes to see loan growth. And so the drag on loan growth has been an issue because that does drive earnings growth. It doesn't necessarily drive higher returns.

And in our view, in terms of what drives stocks, it's three things. It's your return profile; it's a more durable risk profile; and most importantly, it's the ability to deploy capital and grow your tangible book.

Anne Malone (10:21)

One, two, three. Deregulation, is that an ongoing trend? Are the rules going to change? Have they changed?

Keith Horowitz (10:31)

It's an ongoing story, right? It's a really great narrative, especially for the larger banks. We've seen that, and I think that's taken a lot of these banks a little bit further past what we think is fundamental value because it's a clean story. You get the bank from deregulation from lower capital levels for the largest banks, and also capital markets.

I think a lot of that is priced in. When you look at the regional banks from, say, U.S. Bancorp on down, they'll benefit from deregulation in terms of maybe M&A, in terms of approval that can happen relatively quickly. So that's a positive. But outside of that, I don't necessarily see a significant impact that would move the needle for them.

Anne Malone (11:08)

OK, so already priced in.

Stablecoin — is that a big mover or shaker in banking?

Keith Horowitz (11:15)

So, a lot of discussion on stablecoin. Clearly right now the use case is dominated by crypto trading. When you think about the impact on the banks, I would think it's more on the commercial side when you think about cross-border. Basically, a lot of companies need to keep a lot of excess liquidity around, because it's not real-time in nature.

So you can make the fundamental argument that with stablecoins, real-time payments, a company could potentially bring down a lot of their liquidity and free up a lot of capital for that. And that would have a negative impact in terms of the banks, in terms of some of their payments' revenues.

I think there's some pressure there. I don't think it's a dire situation for the banks. And I do think that certain banks do have solutions already to offset the stablecoins. I don't feel like that there are competitive disadvantages. Maybe the profitability of some of those cross-border businesses get pressured a bit, but it's not something that we're overly concerned about.

Anne Malone (12:06)

But you say in theory — you didn't use air quotes, but I kind of felt it was hanging in there. Is it this year? Is it the next several years we see whether it becomes more of a pressure or not?

Keith Horowitz (12:17)

It's a big lift for a multinational company, to change their treasury operations and also move to a stablecoin type of infrastructure. So I'm sure there will be examples. I just don't know if that's priority number one for a lot of these large multinational corporates. I'm not saying that there's not an opportunity, I'm just saying that there's a lot of other things that they're worried about other than their banking.

So you have to look at it and say that there is some pressure coming on. I just don't think it's a sea change right away.

Anne Malone (12:43)

Makes sense. And I'm sure you're right, their worry list is a lot longer than just that.

We've made it this far and we didn't really tap on the consumer. We keep saying they're resilient — we've had a podcast on that with the retail folks. What do you think about consumer rates?

Keith Horowitz (13:02)

From a credit-quality perspective, things look good. We're definitely in a K-shaped economy. And so going back to earlier in terms of regulation, a lot of the banks have moved away from a non-prime type of customer. So most of their books, most of their lending exposures are toward prime, super-prime type of customers. So you don't have a lot of exposure to a lot of the consumers who are under some duress right now.

Anne Malone (13:27)

And that's regional and large banks?

Keith Horowitz (13:30)

Yeah, the issue is there is always a price, right? And so you can make an argument for good risk-adjusted returns. This goes back to the argument of economic capital vs. regulatory capital. And so a lot of the capital really is dependent on how these portfolios shine through, as you go through the stress test.

And so if the regulators believe that the inherent losses in the portfolio are much higher than what the banks are modeling and the capital requirements are higher, then it doesn't really make a lot of economic sense. And so, I feel like on the edges, banks have just felt more comfortable moving toward prime and super-prime customers.

Anne Malone (14:03)

Credit cards, interchange rates? Your thoughts there, as an area of focus at banks?

Keith Horowitz (14:12)

I mean, if you look at the numbers and we go out to dinner and I pay —

Anne Malone (14:16)

You're always going to pay, Keith.

Keith Horowitz (14:19)

So, $100 bill, we're not going to a super nice restaurant.

Anne Malone (14:22)

That's right.

Keith Horowitz (14:24)

So the restaurant's going to get, call it $97 and change. And a big chunk of that number is going to go to the banks, in terms of interchange.

So if I use XYZ Bank's credit card, they're going to get about $2.25, $2.40 maybe of that. And so that's a big number. But the issue is when you look at the net interchange that actually drops to the bottom line for the banks, some of the largest banks, it's only around 10 basis points.

So a lot of the rewards that you're getting — the 2% cash-back rewards, things like that — when you look at it on average, where we take the actual net interchange revenues, net of rewards expense, relative to the spending volume on their credit cards, it could be like 10 to 15 basis points. Or, in that example of the $100, call it like 10 cents. So, if there is any kind of effort to impact interchange, the banks have a big kitty there to play with in terms of the rewards to offset it.

Anne Malone (15:16)

We've had good discussions with our airlines analyst, John Godyn, about that and how valuable those reward points are.

Keith Horowitz (15:22)

Right. It not only goes to the consumers, but on those partners, the airlines get a big chunk of that as well.

Anne Malone (15:29)

OK. We covered a lot of ground. Can't help but mention May is our Napa Back to Basics event — always a popular one to get deep insights into the banks. Keith, I always enjoy our conversations.

This podcast was recorded on Jan. 29, 2026. Be sure to join us for our next Research @ Citi podcast, which will feature our U.S. Industrials analyst, Andy Kaplowitz, who's going to give an update on automation and a wide-ranging number of subjects in industrial, tech and the mobility sector.

You should feel free to explore our library of previous podcasts, all of which are available on this channel and other channels as well. Be sure to be on the lookout for our Research @ Citi Markets Edition podcast for its 10-minute breakdown of the equity and global macro markets, each and every week. Thanks so much everyone.

Disclaimer (16:12)